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ABSTRACT

To assist students in comparing living standards in the Soviet Union and Western Nations, a chart containing data from a 1982 survey of the retail prices of 179 selected consumer goods and services is provided. Prices were converted into worktime equivalents and the capital of each country, with the exception of Munich, was chosen to represent the entire nation. The accompanying teacher's guide offers suggestions for using this chart which shows the prices of a wide variety of commodities in five major countries: Great Britain, France, West Germany, the Soviet Union, and the United States. The first of four major sections contains background information on the survey, the commodities selected, and an explanation of how money prices were converted into worktime prices. Section 2 includes a discussion of five general characteristics that can be used to compare economic systems. In section 3, the economies of five countries are compared in terms of these characteristics. In the final section, criteria for evaluating the performance of different economies are described. Each discussion is followed by an activity to help students better understand and use the concepts and information in the section. Although sections can be used separately, it is recommended that they be used in sequence. (LH)

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WHAT'S THE DIFFERENCE?

TEACHER'S GUIDE

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National Federation of Independent Business
Research and Education Foundation
San Mateo, California

1983

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What's the Difference?

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TEACHER'S GUIDE

Introduction

During the past decade, Americans have faced numerous economic problems including an energy crisis and high levels of inflation, and of unemployment. But our experience has not been unique; nations around the world have faced similar problems. It is only natural, then, for people to want to compare economic conditions and standards of living to see how well the various economic systems serve the people in those various countries. "What's the Difference? . . . Washington, D.C./Moscow/London/Paris/Munich," published by the National Federation of Independent Business Research and Education Foundation, lists the prices of a wide variety of commodities in five major countries—Great Britain, France, West Germany, the Soviet Union, and the United States. To make comparisons as meaningful as possible, prices are expressed in terms of the worktime needed to purchase each commodity. Mr. Keith Bush of Radio Liberty Research, a division of Radio Free Europe, and his colleagues conducted the field research for this information with a grant provided by the NFIB Research and Education Foundation.

This TEACHER'S GUIDE was designed to facilitate classroom use of the "What's the Difference?" chart in a variety of subjects. Section I contains background information concerning the survey, the commodities selected, and an explanation of how money prices were converted to worktime prices. Section II includes a discussion of five general characteristics which can be used to compare economic systems. In Section III, the economies of the five countries on the chart are compared in terms of these characteristics. In Section IV, criteria for evaluating the performance of different economies are described.

Each discussion is followed by an activity to help students better understand and use the concepts and information in the section. Although sections can be used separately, for maximum results, it is recommended that they are all used in sequence. Discussions in these sections are adapted with permission from "Retail Prices in Moscow and Four Western Cities in March, 1982" by Keith Bush and from *The Foundations of Free Enterprise* by John W. Allen, David G. Armstrong, and Lawrence C. Wolken.

We owe particular thanks to Keith Bush and his colleagues for conducting the survey of retail prices, to Lawrence C. Wolken, associate director of the Center for Education and Research in Free Enterprise at Texas A & M University, for his assistance in writing this guide, and to John Blundell, director of public affairs for the Institute for Humane Studies, for his critique and suggestions. We also appreciate permission to reprint the "ISM" poster from the Center for Constructive Alternatives at Hillsdale College in Hillsdale, Michigan.

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Section I

Background Information

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The Survey

To assist in comparing living standards in the Soviet Union and Western nations, the "What's the Difference?" poster is based on a survey of the retail prices of 179 selected consumer goods and services. These prices were then converted into worktime equivalents. The capital of each country, with the exception of Munich, was chosen to represent the entire nation.

The retail prices (in local currencies) of the consumer goods and services surveyed were recorded during mid-March 1982. Prices were recorded for the standard quantity or package sold in each city. Container charges were deducted from retail prices. State, local, and value-added taxes, if levied, were included. For purposes of comparison, these prices were then expressed on a per-unit basis (usually a kilogram or liter). In many instances, the standard package or quantity was larger in the United States than in Western Europe or Moscow. Quantity discounts may therefore have introduced a slight bias in favor of the American figures.

In Moscow, the prices for foodstuffs were those recorded at state retail stores where prices vary only on "new" and "improved" products or on certain vegetables and fruits because of slight seasonal variations. In the Western cities, prices were surveyed, whenever possible, in at least five suburban supermarkets having moderately priced products. An average price was then computed.

The Commodities

The items shown on the poster include only goods and services which could be purchased in all five cities. Whenever possible, a common brand name was chosen for the commodities surveyed in the United States and Western Europe. This restricted the range of goods that could be included. For example, frozen and convenience foods are eaten frequently in many Western households but are not widely available in Moscow. They were, therefore, excluded from the survey.

Some of the 179 items in the survey were not available in any of the Moscow stores surveyed. In fact, they are usually not available except on special occasions, e.g. days marking the anniversary of the October Revolution or during the Olympic Games in 1980. Since listing state-fixed prices, regardless of the availability of the products, might result in misleading conclusions, only items that were available at the time of the survey were included on the poster.

The first group of commodities shown in the chart are some of the items which were included in a weekly food basket for a family of four. Because the basket of food, beverages, and cigarettes is at estimated Soviet levels of consumption, it excludes items like coffee which are commonly consumed in Western countries.[1]

It is unfortunate that an international comparison of this type can only include items consumed in all the countries involved. The differences in regional cultures and in individuals' taste should be kept in mind when using the poster for economic comparisons.

The quantities used for the food basket tend to reflect the expenditure patterns of Soviet urban families. These families have an average of 1.6 wage-earners and spend more than half of their disposable income on food, drink, and cigarettes. These consumption figures may be quite different from those of families in Western countries. One recent study, for example, found that Soviet real per capita consumption levels in 1976 were, on the average, 34.4 percent of the American levels.[2]

Table 1 includes the 23 items in the weekly food basket, the quantities based on Soviet consumption patterns, and the worktime required to purchase each item. The table also includes the worktime required to purchase the weekly food basket for a "statistically average" family of 3.5 persons.[3]

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Table 1

Retail Prices of the Weekly Food Basket in Worktime Prices

Item	Kilograms	Washington	Moscow	London	Paris	Munich
		(Minutes of Worktime)				
Flour	1.0	5	28	6	6	9
Bread	7.0	112	119	112	126	189
Noodles	2.0	28	68	28	22	32
Beef	1.0	69	123	115	119	150
Pork	1.5	63	176	117	108	150
Minced Beef	1.0	37	123	63	80	70
Sausages	1.0	33	160	51	75	75
Cod	1.0	61	47	72	118	45
Sugar	3.3	30	191	36	30	33
Butter	0.5	28	111	25	24	26
Margarine	2.0	46	222	64	36	34
Milk (liters)	12.0	72	264	108	96	84
Cheese	2.0	200	370	130	118	130
Eggs, cheapest (units)	18.0	14	99	29	23	22
Potatoes	9.0	63	63	27	36	36
Cabbage	3.0	27	36	30	27	21
Carrots	1.0	11	19	13	7	10
Tomatoes	1.0	23	62	32	25	28
Apples	1.0	10	92	23	15	15
Tea	.1	10	53	5	17	10
Beer (liters)	3.0	33	48	54	21	24
Gin/Vodka (liters)	1.0	87	646	187	153	106
Cigarettes (units)	120.0	54	90	150	48	96
		(Hours of Worktime)				
Weekly basket, as above		18.6	53.5	24.7	22.2	23.3
Weekly basket for "statistically average" family of 3.5 persons		16.3	46.8	21.6	19.4	20.4

Converting Prices into Worktime

Instead of listing the commodities' prices in terms of local currencies or of converting them to a single, common currency, the prices were expressed in terms of the amount of worktime needed to purchase each item.

To accomplish this, the take-home pay of the typical worker in each country was determined. The calculation of take-home pay began with the December 1981 average gross earnings of male and female industrial workers. This is the largest single group of workers and the only category for which roughly comparable data exist. (The major discrepancy for these figures is that Soviet statistics for industrial workers seem to cover a slightly larger category than the relevant Western data.)

Because taxes and income subsidies vary widely among the five countries, gross earnings needed to be adjusted to reflect the workers' take-home income. First, direct income taxes for a worker with three non-earning dependents (a housewife and two children aged nine and six years) were deducted from average gross monthly earnings. No itemized deductions were made. State taxes for Washington, D.C. and church taxes for West German workers were also subtracted. A transportation allowance was added for workers in Paris.

For the four Western countries, the compulsory social security contributions by the employee were subtracted from after-tax earnings. Since medical insurance premiums guaranteeing basic health care coverage for workers and their families are compulsory in Western Europe, they were deducted. No specific contribution is levied in the Soviet Union for their free medical care. Although medical insurance is optional for American workers, a group, high-option family coverage premium was deducted so that the U.S. figures would more closely resemble the wages and benefits in the other countries. The policy chosen provided basic hospital and out-patient coverage but excluded dental care.

Another deduction was made from the earnings of the German, French, and British workers for unemployment insurance. No such deduction was made in the Soviet Union since unemployment officially ceased in 1930. In the United States, the employer pays the entire charge of unemployment insurance.

Family allowances were added in the three West European nations but not in the United States. In the Soviet Union, a family supplement has been payable since September 1974, if the per-capita family income is less than fifty rubles a month. A flat rate of twelve rubles a month is paid for each child until the child's eighth birthday. As in the West, the wives in most workers' families also hold jobs outside the home. This usually raises the per-capita income above the fifty-ruble level.

Making these deductions and adding these allowances yielded the average monthly take-home pay for the worker in each country. For purposes of comparison, these figures were converted to dollars and then computed on a per work-hour basis. Thus, the average take-home pay per work-hour was $5.69 in the United States, $1.35 in the Soviet Union, $5.00 in West Germany, $4.66 in France, and $4.13 in England. Table 2 summarizes these calculations.

Once take-home pay per work-hour is calculated, it is easy to convert the price of a commodity into the worktime necessary to purchase it. Simply divide the cost of the item by the take-home pay per work-hour. If the cost of the item is less than the worker's hourly take-home pay, the worktime price of the item will be less than one hour. In that case, it may be easier to express the worktime price in minutes. To do this, multiply the fraction obtained from the previous division exercise (the hourly worktime price) by 60. Substitutions of actual costs and hourly wages into the following equation can facilitate the calculations of worktime prices.

$$\text{Unknown worktime (in minutes)} = \frac{\text{Cost of the item} \times 60}{\text{Take-home pay per work-hour}}$$

With prices stated in terms of worktime, it is easy to determine in which country each item was the most expensive. These calculations provide more than just a basis to compare the worktime required to purchase an item in each of the five countries. They give an idea about the extent of the government's impact on a family's income and thus provide insight into the economic system prevailing in each country. The government impacts take-home pay both by taxing and by increasing incomes with family allowances.

Limitations of the Survey

When making comparisons, it is important to note the limitations of this survey. International comparisons can reveal certain things about relative living standards, but the figures can also be misleading in some respects if they are not interpreted with due caution.

Although every effort was made to ensure that goods and services selected for examination in the five cities were comparable, this was frequently difficult to do. For example, automobiles available in the five countries varied widely. The "drive-away" price for a basic Ford "Escort" was used in the United States and Western Europe. A "Zhiguli" VAZ-2106 was used in the Soviet Union. Even though these models were approximately the same size and had the same engine capacity, it was difficult to compare their finish, performance, durability, and resale value.

Table 2

Calculations of Take-Home Pay

	US Dollars	USSR Rubles	FRG Marks	France Francs	UK Pounds
1. Average gross monthly earnings	1,426.45	177.30	2,772.50	5,023.06	483.20
2. *minus* Income, state and church tax	190.90	18.25	331.74	nil	80.69
3. *minus* Social security contributions	95.57	nil	249.53		
4. *minus* Medical insurance premium	156.00	nil	155.26	637.32	38.66
5. *minus* Unemployment insurance payment	nil	nil	55.45		
6. *plus* Family allowance	nil	12.00	150.00	398.72	41.17
7. Average monthly take-home pay	983.98	171.05	2,130.52	4,784.46	405.02
8. Monthly take-home pay converted to US $	983.98	237.90	893.49	786.92	737.74
9. Take-home pay ($) per work-hour	5.69	1.35	5.00	4.66	4.13
10. Take-home pay (¢) per work-minute	9.48	2.26	8.33	7.76	6.89

Notes and sources available upon request.

In addition to comparability, there is the problem of the availability of the items in Moscow. Some items are affordable, but not attainable by most Soviet consumers. For example, the rate for a double room in a Moscow hotel is astonishingly low. However, it is virtually impossible for a Soviet citizen to get a room without special authorization.

Comparability and availability are important considerations when noting the worktime prices of housing. The first rent figure given on Table 3 relates to uncontrolled and unsubsidized housing. This category has no real equivalent in Moscow where housing is virtually a rationed commodity (though some private subletting of housing space occurs, often at higher rents). The second rent figure given is for accomodation that is subsidized, or under rent control, by the local authorities.

The monthly rents refer to modest, unfurnished three-room apartments in one of the least expensive suburbs. A floor space of fifty square meters was selected because it approximates the current Soviet urban per capita average housing space, determined by Lenin, to be nearly nine square meters (ten feet square) of "total space." This apartment makes housing space for the Soviet family smaller than that occupied by most American families. Despite this quota, as a result of housing shortages, many Soviets live in communal housing arrangements where several families each have two rooms and share a kitchen and bath. A private apartment may require years of waiting.

The problem of nonavailability is understated by using Moscow as representative for the Soviet Union. It is well known that Moscow is better supplied with many items than much of the rest of the country. Early in 1981, the Soviet weekly paper, *Literaturnaya gazeta*, sent a correspondent to Krasnodar, a city with a population of more than half a million people. He was told to purchase a number of everyday items in the shops there. The items included a toothbrush, soap, shaving cream, socks, and underwear. He reported that a day's shopping yielded none of these items.[4] More recently, articles in Soviet newspapers have reported a two-year wait for spectacles and a shortage of safety razors.[5]

The prices in Moscow are also underestimated because no adjustments were made for the high cost of "shopping time" in the Soviet Union or for the frequency with which Soviet citizens end up paying more than the official price—either because they have to resort to the private food markets instead of shopping at the state stores or because they have to obtain something on the black market. Unfortunately, there was no way of including this in the figures shown on the poster.

The prices may also be underestimated because they are based on the earnings of the average industrial worker. In some cases, the average industrial worker is clearly not the average worker. In the Soviet Union, for example, about one-quarter of the Soviet labor force is in industry and the average annual earnings in the industrial labor force are approximately 10 percent higher than the average for all Soviet workers and employees.

In forming a general impression of average living standards from the information presented on the poster, several considerations should be kept in mind. First, the official Soviet figures from the 1979 census put the average number of earners per household at approximately two persons. Second, the scale of income transfers (pensions, student stipends, etc.), as a proportion of total wage and salary incomes, is fairly similar in the five countries. Third, the extent of free provisions of health and education services by the state, in relation to total household incomes, does not differ a great deal between the Soviet Union on the one hand and Britain, France, and Germany on the other.

Another consideration relevant to comparative living standards, as distinct from average real wages, is that two types of income (apart from transfer incomes) are not included in the poster—income from wealth (rent, interest, dividends) and income from various sorts of moonlighting, whether legal or illegal. Personal income from wealth is more significant in the West but is still modest in total when compared with labor income. In addition, sources of outside income are poorly documented in all economies but may be relatively more important in the Soviet Union. Some estimate that income from private economic activity accounted for approximately 10 percent of average urban household incomes in the European parts of the Soviet Union during the early 1970s.[6]

The survey upon which this poster is based compared the purchasing power of average industrial wages in the five countries. It is not, however, an indication of how well off in material terms the average Soviet citizen is compared with the average American, West German, Frenchman, or Briton. Instead, it indicates how much purchasing power the average industrial worker in each country receives for his or her labor.

The figures on the poster say little about the nonmaterial aspects of life in the five countries. The quality of life in any country is influenced by many things other than economic factors. For a much broader comparison, each nation's political and social systems should also be considered. Even though this is beyond the scope of the economic data presented in the poster, the worktime figures are, to some extent, influenced by the political and social systems existing in each country. A nation's economic system cannot be completely separated from its political and social systems.

Any type of international comparison confronts the difficulties mentioned above. In spite of these problems, the information presented in the poster provides a starting point for students to compare the standard of living in the five countries. This information should be supplemented from other sources whenever possible.

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[1]Derived from *Narkhoz 80*, p. 405.
[2]Gertrude E. Schroeder and Imogene Edwards, *Consumption in the USSR: An International Comparison*, US Congress Joint Economic Committee, US GPO, Washington, D.C., 1981, p.
[3]See *Vestnik Statistiki*, No. 11, 1981, p. 60.
[4]*Literaturnaya gazeta*, No. 13, 1981, p. 12; cf. No. 10, 1981, p. 12.
[5]*Pravda*, February 17, 1982, and *Trud*, February 20, 1982, respectively.
[6]Gur Ofer, Aaron Vinokur, *Private Sources of Income of the Soviet Urban Household*, Rand, Santa Monica, 1980, p. 2.

Activity

Objectives (Content)

- –Wages and prices help determine the standard of living in a country.
- –The standard of living is better in a country with lower priced goods relative to wages and with easier access to these goods.
- –Although items chosen for purchase by various consumers may differ, each person selects first the items he or she places the highest value on relative to its price.
- –Families may not be able to afford to buy all they want if only one parent works a 40-hour week.

Objectives (Skills)

- –Determining the basic items in a family's budget
- –Comparing the costs of items in the budget at prices in the United States, Great Britain, the Soviet Union, France, and West Germany

Divide the class into groups of four to simulate families. Ask each group to write a budget containing the items which a family of four would need each week. Have each group determine the total worktime costs of their list in each of the five countries represented on the poster. Table 1 lists all the items and prices in the "food basket." Additional items are given in Table 3. Groups might be surprised to compare their weekly food list to the "food basket."

To make the budgeting problem more realistic, students should realize that a family's weekly income is limited. If only one member of the family works, the family may have only 40 "work-hours" to spend each week. If the total cost of the items on their list exceeds this amount, the family will have to decide how to cut back to live within the income and/or how they can supplement their income. They may need to discuss the pros and cons of another family member doing full or part-time work. Because the prices of items vary from country to country, each family will have to make a different list of items for each country.

This exercise should give students a better idea about how the standard of living available to workers varies between each of the five countries. Students should also realize that differences in their lists reflect their different values. From family to family, and from country to country, people may not want to purchase the same items. From their supplemental reading, students may have learned some ways that buying habits vary among the five countries.

Table 3

Retail Prices of Goods and Services in Units of Worktime*
Minutes unless otherwise specified

Food						
Baked Beans	canned	12	47	11	14	17
Bananas		9	(123)	20	14	15
Beans	frozen	22	49	34	57	37
Chicken	frozen	16	185	31	28	24
Chocolate	100 g., plain	6	74	13	4	4
Ham	cooked, sliced	77	228	130	109	120
Herring		37	89	47	80	30
Ice Cream	1 liter, vanilla	12	118	13	26	16
Luncheon meat	canned	31	214	30	72	50
Margarine	best	23	111	32	19	17
Mayonnaise		28	100	43	35	30
Mustard	ready mixed	23	90	65	11	26
Noodles	macaroni type	14	34	14	11	16
Onions		9	31	10	8	10
Peas	frozen	20	51	27	50	37
Pepper, ground	cheapest, 100 g.	8	52	15	9	13
Pork	best for roasting	42	117	78	72	100
Rice	polished	16	54	15	15	10
Salt, cheapest	granulated	4	6	7	10	5
Sardines	cheapest, 125 g.	7	21	5	7	5
Steak	sirloin	79	(182)	189	127	101
Tomatoes		23	(62)	32	25	28
Tuna	canned	46	203	78	67	67
Vegetable oil	1 liter	13	100	15	15	28
Yogurt	150 g., plain	4	11	4	2	3
Beverages						
Coffee, ground		62	1231	114	48	85
Orange juice	1 liter, cheapest	10	163	12	15	12
Soft drink	1 liter	5	57	11	9	3
Tea bags	25	11	na	6	12	16
Wine, red	1 liter	28	238	76	20	13
Cosmetics, Drugs, etc.						
Deodorant	roll-on	33	185	31	59	70
Detergent	1 kg., for clothes	16	65	20	24	11
Detergent	500 ml., for dishes	17	52	9	16	9
Diapers		13	na	12	31	29
Paper tissues	100	4	(21)	12	9	10
Consumer Purchases						
Baby sitter	/hour, excluding transportation fare	16	na	40	38	40
Electric razor	Braun Micron (hours)	11	27	8	6	8
Light bulb	100-watt, clear	4	25	9	10	6
Use of launderette	12 kgs., laundry	7	22	16	30	50
Washing machine	automatic (hours)	47	165	81	56	96
Other						
Rent, monthly	50 sq. m., unfurnished (hours)	56	na	95	63	44
Rent, monthly	subsidized, unfurnished (hours)	51	12	28	39	24
Subway fare	2m/3km	7	3	13	4	8
Train fare	600m/100km, economy	104	258	119	87	86

*na denotes a product not generally available
parentheses denote a known price for a product not on sale in early March 1982

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Section II

Comparing Economic Systems

Every nation faces the problem of scarcity; there are simply not enough existing resources to produce all of the goods and services people want. Therefore, choices must be made. Every country has developed its own economic system to decide what items will be produced, how they will be made, and who will receive the goods and services which are produced. In spite of the vast differences between countries' systems, there are five basic characteristics which can be used as focal points for comparing economic systems.

A continuum can help students visualize the differences between economic systems. At one end is a "pure" command economy; at the other end is a "pure" market economy. Although no pure economy of either type actually exists, these reference points are helpful when making international comparisons. In reality, a country's economic system falls somewhere in between the two extremes. Economic systems are commonly divided into three categories—capitalism, socialism, and communism. (Students should realize that the terms free enterprise, private enterprise, and market economy are sometimes interchangeable for capitalism.) The three categories can be placed on a continuum as shown in Figure 1.

To help place a nation's economy on the continuum, five characteristics can be used to evaluate the economic systems. Even though they are basically economic in nature, these characteristics cannot be completely separated from the non-economic aspects of a society. Each of the three types of economic systems are influenced by more than just economic factors. A nation's political, social, and religious systems certainly influence the way economic decisions are made.

Private or Public Property

Property is often thought of as a piece of land. In a broader economic sense, it refers to much more than a piece of real estate. On a personal level, clothes, radios, sports equipment, video games, and furniture are property. So are money in a checking account, stocks, bonds, and other financial assets. Property also includes such things as machines, factories, stores, and school buildings. Even the natural resources of the earth are property. Because it plays such an important role in our lives, the ownership of property is an important aspect of every economic system.

For simplicity's sake, property rights can be divided into two types—private and public. Since private property is owned by individuals, the owners enjoy specific legal rights over that property. These include the rights to determine how the property will be used, to decide when and under what terms it will be sold, and to use the income or other benefits which result from that property.

In a pure market economy, all property would be owned by private citizens. This is easy to understand when one thinks of cars, houses, clothes, and television sets. Confusion might occur when considering factories and stores. Many view these as being owned by businesses rather than by private citizens. In a pure market economy, businesses—whether they are single proprietorships, partnerships, or corporations—would be owned by private citizens and are, therefore, private property.

Figure 1

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In contrast, public property is owned either by society as a whole or by the government, not by private individuals. In these cases, the legal rights of ownership are exercised by the government. It is the government that decides how property will be used and that enjoys any income or other benefits which result from ownership. In a pure command economy, all property would be publicly owned.

In reality, since neither a pure market nor a pure command economy exists, property is owned neither totally by private individuals nor by government. Most of the property in a capitalistic country is privately owned and controlled. Houses, cars, food, clothing, etc. are owned by private individuals. Businesses are also privately owned. However, some public property, such as public parks, roads, school buildings, fire houses, and police stations, does exist.

In a communistic economy, public property is more common. Much of the land and a large part of the housing is owned publicly. Most of the businesses and factories are owned and operated by the government. Individuals still own smaller, personal items, such as the clothes they wear and the furniture in their homes. A few people may even own and operate a small business or farm.

In a socialistic economy, there is much public ownership of property, but public ownership is much less pervasive than in a communistic economy. Many of the major industries in the socialistic country are publicly owned and operated by the government. However, businesses and factories in the less important industries are privately owned. A socialistic economy may also provide some public housing, particularly for the poor.

The Role of Government

The role of government in a market economy is far different than in a command economy. In a pure command economy, the government would make all economic decisions. Not only would the government decide what products would be made and how they would be produced, but it also would set the prices on all products and determine the amount of workers' wages. The government would make and carry out these decisions because it owned all of the property in the country.

In a pure market economy, government would play an important, but limited role. The government would not make economic decisions. They would be made by the producers and consumers in the marketplace. Instead, government would establish the rules under which the market operated, thus insuring that all individuals were treated fairly. It would make certain that both parties of a contract properly fulfilled their obligations. The government would, for example, pass laws protecting people from such things as fraud and settle disputes resulting from conflicting interpretations of its rules.

Under communism, the government plays a very active role in making economic decisions. Its decisions are reflected in the economic plans which control much of the country's economic activity. Its plans are carried out in the state-owned factories and stores.

In a socialistic economy, the government plays an active role, but not as great as in a communistic economy. Instead of planning the entire economy, the government tries to influence economic activity in directions it feels are desirable. This is accomplished through its decisions in operating the publicly owned industries and through its taxing and spending policies. Major objectives of governmental activities in a socialistic economy are to provide citizens with a minimal standard of living and to create a somewhat equal distribution of wealth. In contrast to communism, socialists prefer to accomplish their desired economic changes through peaceful, democratic political processes rather than by revolution.

Under capitalism, the government influences the economy through the ownership and control of some public property. The government also affects economic decisions by making laws which limit or prohibit certain kinds of transactions, such as pornography and drug abuse. As the government becomes more involved in determining what people can buy, how much they pay for the items, and how the good should be produced, or as it assumes a more active role in redistributing income through its taxing and spending policies, the country's economy becomes more socialistic. This can be shown as a movement to the left on the continuum.

Freedom of Choice

The role of government in an economy is closely related to the amount of freedom of choice exercised by individuals in that society. In a pure market economy, people would have complete freedom of choice. Economic decisions would be made entirely by voluntary exchanges. Both the buyer and the seller would have to believe they would benefit from an exchange before it would take place. Neither party could force the other to agree to the exchange. The government would merely ensure that both parties upheld their parts of the agreement. In contrast, individuals in a pure command economy would have virtually no freedom of choice. Instead of voluntary exchanges between buyer and seller, the government would make all decisions.

Under capitalism, the vast majority of the economic decisions made are the result of voluntary exchanges. As government becomes more involved in determining the outcome of exchanges, the economy comes closer to being socialistic. Under socialism, the government may attempt to achieve a more equal distribution of wealth. As government taxes more of a person's income, the individual's choice about how his or her income will be spent is correspondingly reduced. The individual also has little choice concerning the quality and quantity of

services which are provided by the government. Under governmentally run medical programs, for example, patients cannot choose which doctor they will see and have little control over the quality of the care they receive.

Since the government makes most of the economic decisions under communism, there is little opportunity for individuals to exercise freedom of choice. Even though exchanges are voluntary in the sense that people are not forced to buy certain items, individual choice is greatly reduced. Since the state produces the products, it determines the variety of goods and services which will be available. The state sets wages and prices, leaving little opportunity for individuals to bargain legally among themselves.

Economic Incentives

Economic incentives come in two forms—rewards and punishments. For an individual, rewards include such things as higher wages, promotions, and better working conditions. Punishments include lower wages, demotions (or even being fired), and less desirable jobs. For a business, the rewards are profits, and the punishments are losses and perhaps eventual bankruptcy.

Economic incentives play a key role in a pure market economy. Individuals make decisions hoping to receive rewards. Individuals may learn new skills and try to be more efficient and productive in an effort to receive greater rewards. Businesses try to make profits by making products which people will buy. These market-oriented incentives are not present in a pure command economy.

The limited role of government in a free enterprise economy allows economic incentives to operate. Individuals and businesses are permitted to enjoy the financial rewards of their efforts, but they must also pay the costs of their failures. In the small, privately owned industries in a socialistic economy, the system of economic incentives is allowed to operate.

However, under socialism, economic incentives do not always play a role in governmentally controlled industries because making a profit may not be the desired goal. Instead, the government may manage companies in such a way so as to influence general economic activity to achieve certain social goals. For example, simply to provide employment for its workers, a public factory may be kept open or a private business which is failing may receive government assistance. Because the state tends to provide "cradle-to-grave" care for its citizens, socialism is apt to reduce the impact of economic incentives—both rewards and punishments.

Being idealogically opposed to capitalism, a communistic economy rejects the use of incentives. Communists believe that the rewards and punishments in a free-enterprise economy encourage individuals to work for their own self-interest rather than for the good of society as a whole. In the ideal communistic economy, people would work together to produce the goods and services they wanted and would then share the products of their labor equally.

Competition in the Markets

Competitive markets are an integral part of capitalism. If they feel a profit can be made, individuals can start a business in any industry they choose. Thus, existing businesses must compete not only with each other, but also with potential competitors. They compete through both the prices and the quality of their products. This competition results in the production of a wide variety of goods and services from which buyers can choose. As the degree of competition in the marketplace is reduced, a nation's economy moves to the left on the continuum.

In the major industries of a socialistic economy, there is no competition between companies because they are all owned by the government. Competition does exist, however, in the smaller industries of the private sector.

There is even less competition under communism. The state runs the factories which make the products. These are then sold at state stores at prices set by the government. This does not provide much of an opportunity for competition, either through price or the quality of products.

Activity

Objectives (Content)

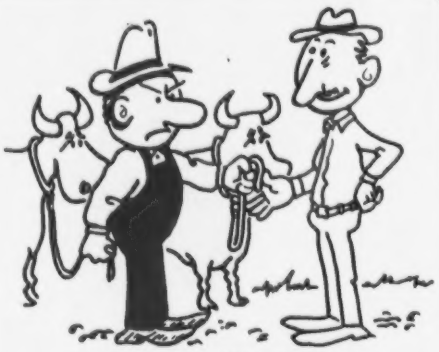
- —Different economic systems vary according to the characteristics of property, role of government, freedom of choice, economic incentives, and competition.
- —A nation's economic system is influenced by the country's political system.

Objectives (Skills)

- —Classifying economic systems according to the characteristics discussed in this section
- —Relating real-life occurrences to these economic systems

Construct a chart with the five characteristics listed across the top and the three types of economies listed on the side. Ask the class to describe briefly the characteristics which pertain to each type of economic system.

This exercise can be done by the students individually or as a class activity. If one large chart is made and posted on the bulletin board, students can clip pictures and stories which illustrate the descriptions on the chart from newspapers and magazines. By discussing those pictures and articles, students can relate actual experiences with the abstract concepts of capitalism, socialism, and communism.

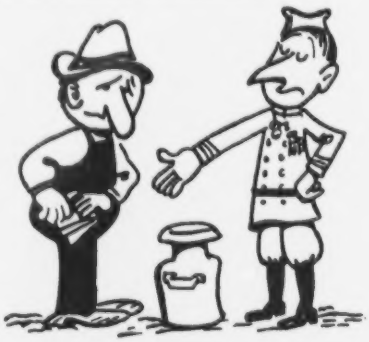


You have two cows and give one to your neighbor.

SOCIALISM

You have two cows and the Government takes both and gives you the milk.

COMMUNISM



You have two cows and the Government takes both and sells you the milk.

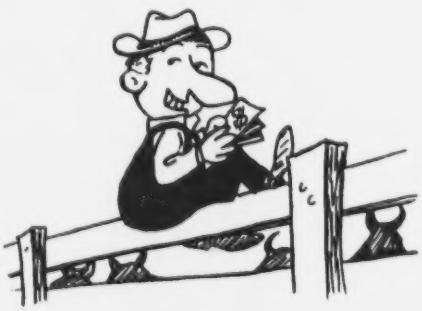
FASCISM

You have two cows and the Government takes both and shoots you.

NAZISM

You have two cows and the Government takes both, shoots one, milks the other and then throws the milk away.

NEW DEALISM



You have two cows, you sell one and buy a bull!

CAPITALISM

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Section III

Placing the Five Countries on the Continuum

After studying the basic characteristics of capitalism, socialism, and communism, students need to learn about the economies of the five countries on the poster. With this knowledge, students can compare the economic systems of the five countries and determine where each one belongs on the continuum.

It is conceptually appealing to pick a point on a continuum to represent a nation's economy and to use this in making international comparisons. In practice, it is very difficult to do. To determine how hot or cold a pot of water is, one uses a thermometer and simply reads the temperature from its scale. Unfortunately, there is no scale which can be used to measure where an economy belongs on a continuum. In the previous section of this guide, five characteristics of capitalism, socialism, and communism were discussed in general terms. In the real world, a nation's economy is a very complex mixture of these and many other factors. One characteristic may place a nation's economy at one point while another indicates a completely different location on the continuum.

Determining the relative positions of the countries is much easier than determining their exact location on the continuum. For example, most people would agree that the United States should be placed closer to a pure market economy than would the Soviet Union. However, there may be considerable disagreement about their exact locations. Students should, therefore, focus their attention on the relative positions of the five countries rather than exact locations on the continuum or the precise distance between two countries.

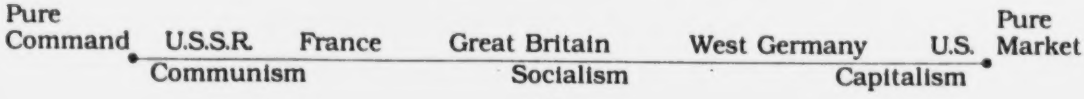
Further complicating matters is the fact that there is no distinct line separating capitalism, socialism, and communism. Instead, there is a lot of shady gray area. This is particularly true of socialism and communism because, from a philosophical standpoint, communism is one of several forms of socialism. Just as there is no pure market or pure command system in the real world, capitalism, socialism, and communism do not exist in pure forms either. For this reason, economists often describe countries as having "mixed" economies. One should also keep in mind that countries are continually evolving into something new and are therefore changing their positions on the continuum.

With these difficulties in mind, the five countries on the poster might be located on the continuum as shown in Figure 2.

The following sections cover some of the factors considered in positioning the five countries as shown on the continuum in Figure 2. Some historical perspective has also been included to illustrate how the countries' positions on the continuum have changed over time.

Figure 2

Five Countries on the Continuum



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United States

Throughout its history, the United States has had a capitalistic economy. In most areas of the country, the majority of the property is privately owned and controlled. The only major industry owned completely by government is the postal service. In addition, approximately one-quarter of the nation's electric utility companies are publicly owned. With a few exceptions, such as the bailout of Chrysler and the windfall profits tax on oil companies, economic incentives are a well-established part of the American economy. Individuals exercise much freedom of choice when deciding what they buy or where they live. Although licenses of some nature are required for workers in some professions, individuals are free to choose which profession they wish to pursue. Most markets are competitive. Recent deregulations, such as in the airline industry, increased the competitiveness of those markets. All of these are characteristics of a capitalistic economy.

Events during the past 50 years, however, emphasize the fact that countries change over time and, therefore, their positions move along the continuum. Since the Great Depression in the 1930s, the United States government has become more influential in the nation's economy. During the 1930s, the government became involved in numerous programs designed to alleviate the economic hardships of the Depression. Three decades later, President Johnson initiated his Great Society program to aid the nation's poor.

One indication of the greater role of government in the American economy is the increase which has occurred in government spending as a percentage of Gross National Product (GNP). Government spending increased from just less than 10% in 1929 to more than 30% of GNP in 1982.

During the 1970s, the government also increased its role in economic decision making by establishing regulations in such areas as the environment, energy, and consumer protection. All of these events tended to move the American economy to the left on the continuum. The increase in the role of government in the economy became a major political issue during the 1980 election. Government spending and balancing the budget were major topics of debate during the first years of the Reagan administration and will continue to be discussed in the future.

West Germany

The West German economy falls in the shady gray area between capitalism and socialism. The vast majority of West German industry is privately owned and operated. However, West Germany has more public property than does the United States, particularly in major industries. For example, the West German government owns not only the postal service but also the tele-communications system, the railroads, most of Lufthansa Airline, and part of Volkswagen. It also has financial control over parts of several other major industries.

Although there are no national economic plans as such, informal cooperation occurs between the federal government, business groups, labor unions, and the nation's private banking system. Government aid to failing firms is considered on a case-by-case basis. The West German economy relies heavily on the economic incentives of competitive markets. Individuals exercise a great deal of freedom of choice. As a result of these factors, private individuals rather than the government authorities make most of the economic decisions in West Germany.

The West German economy has strengthened dramatically in the past three decades. At the end of World War II, the German economy stood in chaos with many of its factories destroyed. During the next ten years, West Germans faced the task of developing their economic system and rebuilding the nation's productive capacity. Having a strong aversion toward the government planning and intervention which existed under Hitler, the Germans turned to the market-oriented system of capitalism. By the mid-1950s, their economy had reached a point where the West German citizens enjoyed a standard of living equal to that in other Western European industrialized nations.

As in the pre-war period, major industries like iron, steel, machinery, and chemicals were dominated by a few large firms. Many people felt that large operations in these industries would lower production costs thereby allowing these companies to compete successfully in international trade. This tended to concentrate economic power in these industries. In contrast, a high degree of competition existed in retail trades, light industry, and among companies producing consumer goods.

Until the end of Adenauer's administration in 1963, the West German economy continued to expand and improve its position in world trade as an exporter of manufactured goods. Private ownership of property was encouraged, particularly in small businesses. The government's role in the economy was primarily to reduce monopolistic tendencies which had developed in certain industries, to reduce barriers to foreign trade, and to control the supply of money in order to eliminate inflationary pressures in the economy.

In the mid-1960s, the idea of a nationally planned economy became more popular. As a result, the government has had more influence over the economy and has attempted to achieve national economic and social goals mainly through its taxing and spending policies.

Great Britain

Although there have been no recent nationalizations of industries, public ownership is more pervasive in Great Britain than in either the United States or West Germany. While firms in the private sector are subject to the economic incentives of competitive markets and can go bankrupt, publicly owned companies can continue to operate in spite of losses by means of government subsidies.

During the Thatcher administration, attention has been given to reversing the unprofitable situation of many companies and returning them to private control. Except for the nationalized industries and the various government welfare programs, Britain's economy responds to the economic incentives of competitive markets. England's economy is very similar to that of West Germany.

Britain's economy has undergone many changes in the past two centuries. The England of the Industrial Revolution in the early nineteenth century is often used as an example of laissez-faire capitalism. This form of capitalism is characterized by the government's nonintervention in trade and industrial affairs. Economic and social conditions in England during this period led Karl Marx to conclude that capitalism was doomed and would ultimately be replaced by communism. History has shown Marx's preductions of a violent workers' revolution to be incorrect. The changes which have occurred since the turn of the century have been accomplished through peaceful democratic processes.

Early government efforts to promote the well-being of the general public included the Old Age Pensions Act of 1908 and the National Insurance Act of 1911. The first provided a small weekly pension for any person over seventy whose income fell below a certain level; the latter attempted to insure people provisions against the adverse economic effects of unemployment and illness.

The British economy remained strongly capitalistic, though, until shortly after World War II. Since then, the location of the British economy on the continuum has depended, at least in part, upon which political party controlled the government. While the British Labour Party was in power between 1945 and 1951, it attempted to move the British economy toward socialism. Even though it retained many of the economic controls which were begun during the war, the Labour government allowed Britain's economy to return slowly to the pricing mechanism of a market economy. Meanwhile, it attempted to guide the economy with a moderate level of national planning, but achieved only limited success. In fact, during the past 35 years the inability of the government to adequately cope with a variety of economic problems has led the British electorate to switch back and forth periodically between the two major political parties.

A major change which the Labour Party made in the British economy between 1945 and 1951 was the nationalization of key industries such as coal, steel, transportation, communications, gas, and electricity. The Labour Party also worked hard toward improving housing, education, health, and other social services. A cornerstone of these programs was the establishment in 1948 of the National Health Service, designed to provide free health care for British citizens. To improve the welfare of consumers, the government also occasionally rationed essential goods and services. Rationing was introduced during World War II and was prevalent in the late 1940s and early 1950s. In the mid-1950s, rationing was phased out. Price and rent controls were also used in this period of time. The Labour Party was much more successful in enlarging England's welfare state before 1951 than it was when it regained power from 1964 to 1970 and from 1974 to 1979.

Whenever the Conservative Party has been in power since World II, it has attempted to place England's economy somewhere between the capitalism of the nineteenth century and the socialistic system favored by the Labour Party. Its goals include full employment, a certain minimum income for British families, and only a limited role for public ownership of industry. Conservatives prefer a dominant private sector with the market mechanism determining how resources will be used and how the goods and services produced will be distributed. Thus, the two parties differ perhaps more in terms of methods than in terms of goals. Margaret Thatcher was elected prime minister in 1979, and by an even greater margin in 1983, by promising to reduce the influence of government and to return the British economy to a more free-enterprise orientation. Like President Reagan, she has found this somewhat difficult to achieve.

France

The French economy is similar to that of West Germany and England. In 1982, the Socialistic government of President Francois Mitterrand completed the nationalization of the banking, steel, armament and a number of other large industries. The private sector of the economy is still quite large, individuals exercise a great deal of freedom of choice, and markets, particularly in the smaller industries, are competitive. Even though the government is influential, it does not dominate economic activity.

Of the three European nations represented on the poster, France has shown the greatest degree of socialism. This is best illustrated by its national economic and social planning. The French people continue to support the idea of national planning even though it was initiated by the Communist and Socialist parties in France after World War II. Since 1947, the French economy has been controlled by a series of plans lasting four or five years each. Within the long-term national plan, annual budgets are constructed which determine the proportion of projected Gross National Product which will come from government spending and investment. Economic planning which exists in France, however, is much less comprehensive than the planning done in the Soviet Union.

The French government exerts much of its influence over the economy through the nationalized industries. In the labor market, the government has an important impact on wages because it employs one-fourth of the nation's nonagricultural labor force. The government's influence over financial markets increased recently when the private banks

were nationalized. Because the government accounts for almost half of the nation's gross domestic investment, it greatly influences the type of investment which occurs each year.

In an effort to return stability to the economy, the government has occasionally imposed general price freezes. The government prefers, however, to maintain price stability by making contracts with private enterprises. Under such a contract, a business agrees not to raise its prices more than a certain amount during the coming year. Companies which have not signed a contract must notify the price-control authorities of any proposed price increases. These increases must then be approved.

When President Mitterrand took office in 1981, several economic programs, such as increased minimum wage, housing allowances, and larger pensions were established to improve social conditions in the country. The higher taxes and costly social regulations which resulted, however, have placed a burden on private industry. Despite these measures, unemployment has increased, higher labor costs have hurt markets for some French goods, and the profitability of many industries has declined. The full impact of these economic decisions and their outcome may remain to be seen.

U.S.S.R.

Of the five countries shown on the poster, the Soviet economy is the closest to a pure command economy. The Soviet government owns the productive resources and all of the factories. It therefore determines how resources will be allocated, what each factory will produce, from where each factory will receive its materials, and how many units each factory will produce. These decisions are contained in the government's five-year plans. These plans are far more extensive and complex than the planning done in France. In 1970, for example, the planning authorities had to coordinate the activities of 41,014 state factories, 33,600 collective farms, and 14,994 state farms with the nation's warehouses, retail stores, service stations, and other businesses.

The Soviet economy has undergone many changes since the Revolution in 1917. With the exception of Lenin's New Economic Policy between 1921 and 1927, there has been an increase in the government's control over the nation's economy. This process began shortly after the Revolution when the private ownership of land was abolished and the banks and factories were nationalized. Most of the businesses in the Soviet Union were placed under the control of the government. By 1921, economic activity drastically declined. In an effort to revive the economy, Lenin returned the farms to private hands and once again allowed some small businesses to be privately owned and operated. The economy then began to gradually recover from the effects of the war. Lenin's death in 1924 caused a power struggle for control of the Communist Party. By this time, the private sector of the Soviet economy accounted for almost one-quarter of the nation's industrial output while the remaining three-quarters came from the public sector.

When Stalin gained control in 1928, he instituted a program to industrialize the Soviet economy. His plan featured the collectivization of agriculture in order to force the peasants to produce the economic surplus needed to support the desired industrialization. Stalin's plan also included nationalizing all industry within the country. After two of Stalin's five-year plans, the private sector had diminished to less than 1% of the nation's gross national output.

Several adaptations to the Soviet's economic plans have had to occur in order for the Soviet economy to be functional. It is interesting to note that Soviet leaders have had to deviate from communist doctrine in order to cope with actual economic problems. Many factories use economic incentives like bonuses and piece-rate wages in an effort to increase production to meet their quotas. Soviet workers are relatively free to choose their occupation, but they have much less control over where they will work and what their wages will be than American workers do.

Agriculture is another good example of the mixture of command and market economies which exists in the Soviet Union. Approximately 95% of the cultivated land is controlled by either the state farms or the collective farms. The state farms are run like any other Soviet business. Their employees receive wages which are not closely related to the farm's productivity. The peasants who work on the collective farms receive some of their income from the food they produce to meet the state-determined quotas. This food goes to the state-run stores and is sold at state-determined prices. Produce which is left after meeting the quota is sold in private markets and the peasants share these proceeds. Because the incentives to be productive are low, the state and collective farms account for only 75% of the country's agricultural output.

The other 25% of the country's food comes from the private sector. Each family working on a state or collective farm is entitled to a small plot of land, usually less than one acre. Although the state still owns the land, the family may use it as it chooses, within certain restrictions. Anything they produce on these private plots is theirs to eat or sell in private markets in the cities. In these markets, prices are determined by the forces of supply and demand. Even though these private plots account for less than 5% of the cultivated land, they account for almost one-fourth of the food grown in the Soviet Union. A lack of economic incentives is obvious in the Soviet agriculture. As a result, while almost 30% of the Soviet civilian labor force works in agriculture, they cannot produce enough food to feed the Soviet people. In contrast, farmers represent only 5% of the civilian labor force in the United States and produce a surplus of food.

The problems of state-owned and controlled housing are also seen in the Soviet Union. Details about the housing situation have been described in Section I of this Teacher's Guide.

Activity

Objectives (Content)

—Information about the economy and current living conditions helps to determine where a country's economy is positioned on a continuum.

Objectives (Skills)

—Obtaining pertinent information from selected readings

—Using factual information to support reasoning when assigning relative positions to five countries on a continuum

Divide the class into five groups and ask each group to learn about the economy and current living conditions in one of the countries on the poster. Students can use newspapers, television news broadcasts, books, and magazines (suggested readings listed below) for their information. Friends, neighbors, and relatives who have visited the assigned country can also provide valuable insights about the daily life of the average citizen.

Each group should also be given a copy of the continuum pictured in Figure 1 and asked to locate their country on the figure. After determining this location, have each group explain their choice of position with specific information about their country's economy. A discussion and reconciliation about the five countries' relative positions on the continuum may be necessary after all groups have made their presentations.

Suggested Readings

United States

"ABC's of Today's Economy," 28-page special section, *U.S. News & World Report*, April 26, 1982, pp. 33–60. Reprints available from Reprints, Room 244, U.S. News & World Report, 2300 'N' Street, N.W., Washington, D.C. 20037.

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"An Economy that Speaks in Trillions," *U.S. News & World Report*, June 14, 1982, p. 73.

"The Underground Economy's Hidden Force," *Business Week*, April 5, 1982, pp. 64–68.

"U.S. vs. USSR: A Comparison of World's Two Largest Economies," *U.S. News and World Report*, March 1, 1982, pp. 34–35.

West Germany

"Has Germany Caught the American Disease?" *Forbes*, March 16, 1981, pp. 42+.

"Looking to Germany for an Economic Lift," *Business Week*, May 17, 1982, p. 43.

Pond, Elizabeth, "West German track records gives hope for recovery," *The Christian Science Monitor*, March 1, 1983, pp. 12–13.

Westphal, Uwe, "Growth That Will Leave Unemployment High," *Business Week*, August 9, 1982, pp. 88+.

Westphal, Uwe, "A Struggle to Keep Unemployment in Bounds," *Business Week*, February 15, 1982, pp. 103–104.

Westphal, Uwe, "West Germany: The Locomotive is in Reserve," *Business Week*, February 2, 1981, pp. 40+.

Zanker, Alfred, "Hangover From West Germany's 'Miracle'," *U.S. News & World Report*, January 19, 1981, p. 32.

Great Britain

Blundell, John, "Margaret Goes to Market," *Reason*, February 1983, pp. 28–30.

"Britain in Brief" and "Information Pack on Britain." Available from British Information Services, 845 Third Avenue, New York, NY 10022.

Haeger, Robert A., "If America Goes the Way of Britain," *U.S. News and World Report*, February 5, 1979, pp. 54–56.

"Will There Always Be An England?" 16mm documentary film on the causes of England's decline with a narration by Dr. Milton Friedman. Available for free loan from American Educational League, Freedom Center, P.O. Box 5984, Buena Park, CA 90622.

France

Echikson, William, "France travels rough road to build nationalized industries," *The Christian Science Monitor*, September 2, 1983, p. 9.

Lefournier, Philippe, "France: Where Consumers Will Suffer the Most," *Business Week*, February 4, 1980, pp. 70–71.

Lefournier, Philippe, "France: Unemployment Climbs to New Records.," *Business Week*, August 4, 1980, p. 45.

Lepage, Henri, "France Under Mitterand: Two Years In and Sinking," *The Wall Street Journal*, May 11, 1983, p. 29.

Muller, Henry, "How They Cope in France," *Money*, June 1981, pp. 60–65.

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Section IV

Evaluating the Performance of Different Economic Systems

Although different economic systems deal with the same economic problems, each system does so in a unique way, which reflects the difference in the social values and objectives in the nation. When comparing economic systems, the question which must be asked is "Which economic system will best improve the quality of life **for us**?" The following seven criteria can be used to help compare different systems.

Standard Of Living

The performance of a nation's economy and the people's standard of living in a nation depend greatly upon the amount of goods and services produced and available in the system. This amount is commonly referred to as the Gross National Product (GNP). It is also important to refer to the per capita GNP, the average amount each person in the society can have. Table 4 includes the figures for the five countries shown on the poster.

Economic Growth

If the standard of living is to increase, it is essential to have economic growth, an increase from one year to the next in the amount goods and services produced and available for consumption. It is especially important to consider the percentage change in the **per capita** GNP and to account for inflation. If a country's population is increasing, for example, more rapidly than is its GNP, there would actually be less available, on the average, for each person in that society. A declining per capita GNP is illustrated in the data for the United States and Great Britain on Table 4.

Efficiency

Since resources are scarce, it is important to be efficient. The economic system should not be wasting resources, but should be operating at its full potential or capacity to produce those goods and services which people want. Being efficient in these ways means the size of the pie is as large as possible and is the flavor the people want.

Equality

Using equality as a criteria to evaluate an economy's performance, one must consider two types of equality. When there is equality of opportunity, people are free to strive for a higher standard of living on an equal basis with each other. No artificial barriers block the efforts of individuals to do their best with their resources and capabilities. There is, however, no guarantee of success.

Equality of results means quite a different thing. In an economy of that type, everyone receives the same share of the pie regardless of the effort each contributed to the making of the pie. Although it might seem desirable to have both equality of opportunity and equality of results, it is impossible to have both at the same time.

Stability

Economic stability is concerned with both prices and employment. Prices indicate the cost of the items and the values of the resources people own. Wide fluctuations in prices are generally considered undesirable because they can quickly change the value of a person's wealth and cause a high degree of uncertainty when economic decisions are made.

Table 4

Comparative GNP Data

	% of World GNP (1980)	GNP Per Capita (1980)	Percentage Change in GNP (1976–1980)	Percentage Change in per Capita GNP (1980)
United States	21.6	$11,540	3.1	–1.3
Soviet Union	11.5	5,240	2.3	0.7
West Germany	6.8	13,410	3.0	1.3
France	5.4	12,300	2.8	1.0
Great Britain	4.2	9,080	1.3	–2.9

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Price fluctuations tend to lead to instability in economic growth and employment. Unemployment is undesirable for economic as well as social reasons. From a purely economic standpoint, an economy with high unemployment is wasting a scarce and valuable resource—labor. An economic system providing stable prices and high employment can use its resources to the fullest extent and produce the largest pie possible.

Security

When using security to evaluate an economy, one must consider from which dangers or uncertainties individuals should be protected and who should provide this protection. It is generally recognized that society must protect individuals who, through no fault of their own, cannot provide for their own well-being. This includes those who are physically or mentally unable to take care of themselves and those who are victims of a specific disaster, categorized as an "act of nature." It is less clear whether the government, rather than the individuals themselves, should provide securities from other uncertainties such as illness, unemployment, and old age.

The government can attempt to provide people with security from a wide variety of life's risks, but someone must pay the bill. Usually, the ones paying are not those receiving the benefits. After all, the reason for the program originally was that recipients of the benefits could not provide that type of security for themselves. There is another cost of these government programs, however. Every time the government provides another type of security, everyone loses some freedom.

Freedom

Freedom is defined as the absence of constraint in choice or actions. However, in a world of many people, total freedom is not possible. One person's freedom of action must be constrained by the rights of others to be free. Therefore, all societies establish laws outlining what people can and cannot do.

The economic freedoms of businesses and individuals are an integral part of a free enterprise system. Equally important is the extent to which an economic system contributes to, or conflicts with, other types of individual freedom—political, religious, press, and others. All of these freedoms contribute to both the material and nonmaterial aspects of the quality of life and are closely related. If the people lose any one of them, they are likely to lose them all.

Conclusion

In conclusion, it must be kept in mind that these criteria are related to each other. Some conflict with each other; some complement each other. For example, efficiency is clearly consistent with growth. Economic freedom is consistent with efficiency. However, equality of results conflicts with freedom, and security may very well be inconsistent with both freedom and efficiency. Clearly, some trade-offs have to be made. When evaluating economic performance, it is necessary that priorities are established among these criteria.

Activity

Objectives (Content)

- —Economic systems can be evaluated by seven different performance criteria.
- —The relative importance of the criteria to a country depends on national preferences.
- —An individual's support of an economic system relates to his or her acceptance of the primary goals of that economic system.

Objectives (Skills)

- —Using factual information to support their answers to questions
- —Making value judgments about the preferred goals of an economic system

Before proceeding with this activity, have the class discuss the following questions:

1. Which of the performance criteria can best be provided by a capitalistic economy?
   Economic and other types of freedom are important characteristics of capitalism. This individual freedom is closely associated with equality of opportunity and relies on individuals to provide their own economic security. Capitalism is, for the most part, a very efficient economic system.
2. Which of the performance criteria can best be provided by a communistic economy?
   Equality of results is a goal of communism. Because the government sets prices and makes sure everyone has a job, prices and employment are fairly stable. The government provides economic security.

Have each student rank the seven performance criteria—from the most important to the least important. Have students compare their lists. Some interesting differences will probably occur since people's values differ. See if the class can arrive at a consensus about which criteria are the most important.

Have each student construct a chart with the five countries across the top and the seven performance criteria down the side. Using a scale of 1 (poor) to 10 (excellent), each student should evaluate how well he or she feels each country performs in each of the criteria. (Before evaluating the countries, the class should determine what types of equality and security are preferred.) Have students discuss their ratings in each category. To show the class' evaluation, combine the students' responses by adding all scores in each category. Calculate a total for each country's economy to determine which country the class feels is doing the best job for its people.

What's the Difference?

Commodity	*Washington*	*Moscow*	*London*	*Paris*	*Munich*
Weekly food basket, selected items:		*Minutes of worktime unless otherwise specified*			
Bread *1 kg*	16	17	16	18	27
Hamburger meat, beef *1 kg*	37	123	63	80	70
Sausages *1 kg*	33	160	51	75	75
Cod *1 kg*	61	47	72	118	45
Sugar *1 kg*	9	58	11	9	10
Butter *1 kg*	55	222	50	47	52
Milk *1 liter*	6	22	9	8	7
Cheese *1 kg*	100	185	65	59	65
Eggs *10*	8	55	16	13	12
Potatoes *1 kg*	7	7	3	4	4
Cabbage *1 kg*	9	12	10	9	7
Carrots *1 kg*	11	19	13	7	10
Apples *1 kg*	10	92	23	15	15
Tea *100 g*	10	53	5	17	10
Beer *1 liter*	11	16	18	7	8
Vodka *.7 liter*	61	452	131	107	74
Cigarettes *20*	9	15	25	8	16
Weekly basket *family of 4 (hours)*	18.6	53.5	24.7	22.2	23.3
Cosmetics, Drugs, etc.					
Toilet soap *150 g, small bar*	4	20	5	7	6
Toothpaste *125 ml*	16	27	13	29	28
Aspirin *100, cheapest*	5	246	9	21	64
Lipstick *one*	30	69	60	76	80

Clothing, Household items and services					
T-shirt *cotton, white*	19	185	66	53	50
Panty hose *one pair*	18	366	18	17	18
Jeans *Levi's (hours)*	3	46	6	6	7
Men's shoes *(hours)*	8	25	7	7	5
Men's office suit *2-piece, rayon, dacron (hours)*	25	109	22	13	15
Refrigerator *cheapest (hours)*	44	155	40	53	42
Television *color, 56-cm (hours)*	65	701	132	106	143
Electricity *1/12 annual bill*	253	246	198	265	242
Gas *1/12 annual bill*	290	39	568	369	125
Water *1/12 annual bill*	32	123	97	95	37
Telephone rent *per month*	119	154	190	119	136
Television and radio license *annual, color television (hours)*	nil	nil	20	15	13
Shirt laundered *white, cotton*	10	25	16	18	13
Dry cleaning *one men's overcoat*	79	92	53	91	54
Haircut *men, no extras*	63	37	34	108	60

Transportation					
Small car *Ford Escort (months)*	5	53	11	8	6
Gasoline *regular, 10 liters*	32	185	85	87	61
Taxi fare *2mi./3km*	21	37	52	27	35
Bus fare *2mi./3km*	7	3	11	9	8

Miscellaneous					
Morning paper	3	3	5	7	5
Suburban movies *best seat*	42	31	53	38	40

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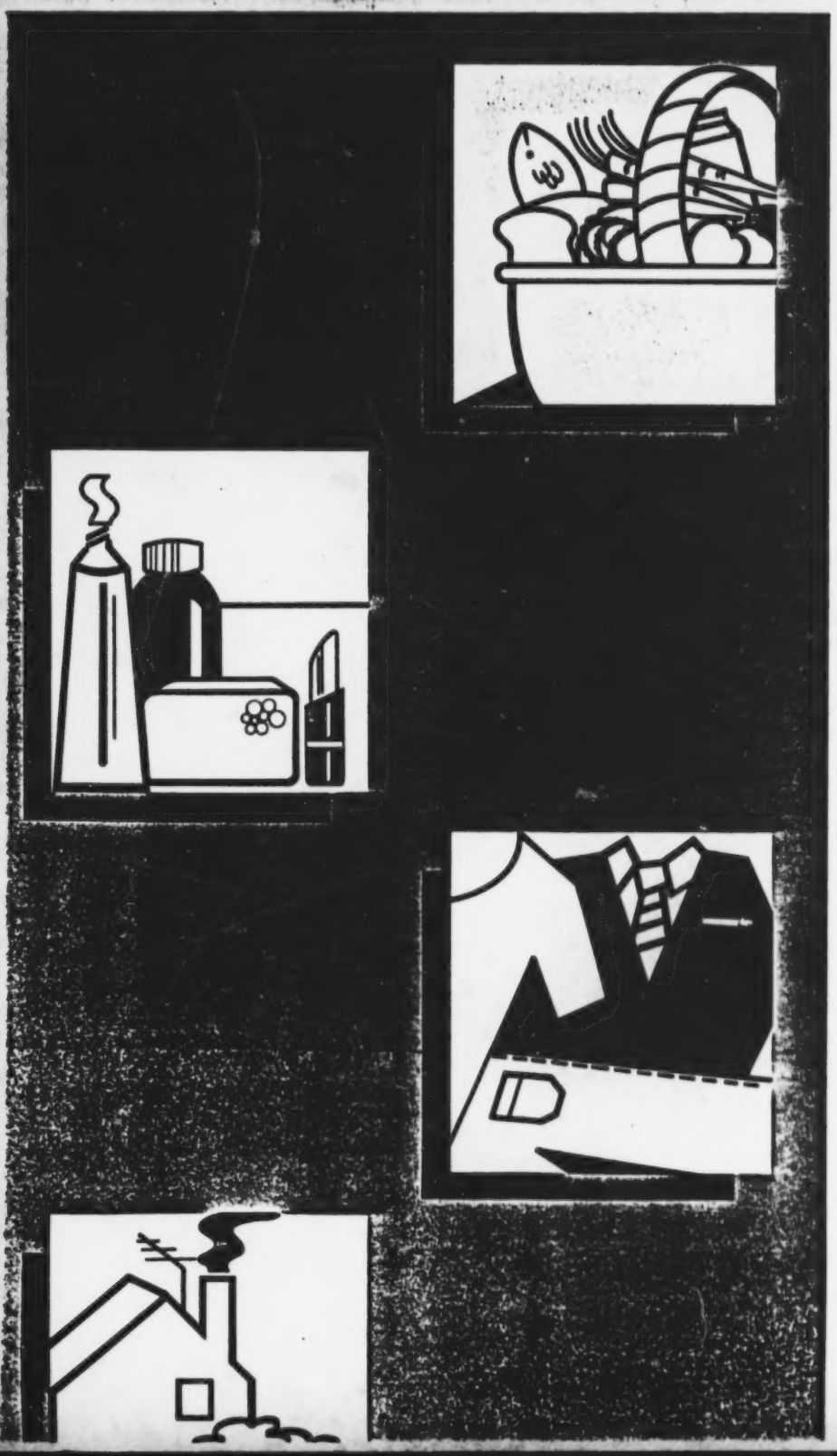

Comparative Standard of Living

Approximate worktime required for average manufacturing employee to buy selected commodities in retail stores in Washington, D.C., London, Paris and Munich and at state-fixed prices in Moscow during March 1982

Source: *Retail Prices in Moscow and Four Western Countries in March, 1982,* Keith Bush. Worktime is based on average take-home pay of male and female manufacturing workers. Income, state, and church taxes (not applicable in France), Social Security taxes and health insurance premiums (not applicable in U.S.S.R.), and unemployment insurance (not applicable in U.S. and U.S.S.R.) have been deducted from wages. Family allowances (not applicable in U.S.) have been added for a family of four. In dollars, hourly take-home pay in December 1981 was $5.69 for American workers, $1.35 for Russian workers, $4.13 for British workers, $4.66 for French workers and $5.00 for West German workers.

An explanation of the survey methods and limitations is available by writing the NFIB Research and Education Foundation.

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